

**JACKSON ARTS AND
TECHNOLOGY ACADEMY**

Jackson, Michigan

FINANCIAL STATEMENTS

**For The Year Ended
June 30, 2008**



REHMANN ROBSON

Certified Public Accountants

JACKSON ARTS AND TECHNOLOGY ACADEMY

For the Year Ended June 30, 2008

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

October 22, 2008

Board of Education
Jackson Arts and Technology Academy
Jackson, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the remaining fund information of the **JACKSON ARTS AND TECHNOLOGY ACADEMY**, as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund, and the remaining fund information of the Jackson Arts and Technology Academy, as of June 30, 2008, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2008, on our consideration of Jackson Arts and Technology Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Jackson Arts and Technology Academy's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION and ANALYSIS

Jackson Arts and Technology Academy

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2008

Jackson Arts and Technology Academy is a K-6 Public School Academy located in Jackson, Michigan. This Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Jackson Arts and Technology Academy administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

U.S. generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Academy-wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

For the most part, the fund financial statements are comparable to general purpose financial statements. The primary difference is that the Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported. The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the Academy's major instruction and instructional support activities are reported in the General Fund. Additional governmental activities are reported in their relevant Special Revenue Funds.

In the fund financial statement, capital assets purchased are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Academy-wide Financial Statements:

The Academy-wide financial statements are maintained using the "full accrual" basis. They report all of the Academy's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of The General Fund. Capital assets and long-term obligations of the Academy are reported in the Statement of Net Assets of the Academy-wide financial statements.

Jackson Arts and Technology Academy

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2008

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Summary of Net Assets:

The following summarizes the net assets at fiscal year ended June 30, 2007 and 2008:

Net Assets Summary

	<u>2007</u>	<u>2008</u>
Assets		
Current assets	<u>\$ 597,292</u>	<u>\$ 334,415</u>
Capital assets	461,598	531,828
Less: accumulated depreciation, as restated	<u>(199,218)</u>	<u>(264,374)</u>
Capital assets, net book value	<u>262,380</u>	<u>267,454</u>
Total assets	<u><u>\$ 859,672</u></u>	<u><u>\$ 601,869</u></u>
Liabilities		
Current liabilities	\$ 442,900	\$ 345,351
Long-term liabilities	<u>60,935</u>	<u>40,933</u>
Total liabilities	<u><u>\$ 503,835</u></u>	<u><u>\$ 386,284</u></u>
Net assets		
Invested in capital assets, net of related debt (deficit), as restated	\$ 145,510	\$ 156,079
Unrestricted	<u>210,327</u>	<u>59,506</u>
Total net assets, as restated	<u><u>\$ 355,837</u></u>	<u><u>\$ 215,585</u></u>

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

During fiscal year ended June 30, 2008, the Academy's net assets decreased by \$140,252 as compared to a net increase of \$177,733 in the prior fiscal year. The most significant difference between prior year and current year was the decline in student enrollment. With the decline of student enrollment comes the adjustment revenue resources and decreases in instructional and non-instructional services. The academy strives to maintain low teacher-to-pupil ratios necessary to accelerate student learning at a rate faster than traditional grade levels. Additional factors affecting the change in net assets during the year are discussed below:

Jackson Arts and Technology Academy

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2008

A. Results of Operations:

For the fiscal year ended June 30, 2007 and 2008, the Academy wide results of operations were:

	2007		2008	
	Amount	% of Total	Amount	% of Total
General revenue:				
State of Michigan aid - all sources	\$ 1,725,578	80.51 %	\$ 1,105,071	63.47%
Other	-	0.00 %	-	0.00%
Total general revenue	1,725,578	80.51 %	1,105,071	63.47%
Program revenue:				
Charges for services	43,875	2.05 %	27,406	1.57%
Operating grants - federal and state	373,819	17.44 %	608,686	34.96%
Total program revenue	417,694	19.49 %	636,092	36.53%
Total revenue	2,143,272	100.00 %	1,741,163	100.00%
Expenses:				
Instruction and instructional services	672,497	34.21 %	597,036	31.73%
Support services	1,120,731	57.02 %	1,166,952	62.03%
Food service	89,924	4.58 %	48,771	2.59%
Interest on long-term debt	7,000	0.36 %	3,500	0.19%
Depreciation (unallocated) as restated	75,387	3.84 %	65,156	3.46%
Total expenses	1,965,539	100.00 %	1,881,415	100.00%
Increase (decrease) in net assets, as restated	\$ 177,733		\$ (140,252)	

B. State of Michigan Aid, Unrestricted

The State of Michigan aid, unrestricted is determined by the following variables:

- Per Student, Foundation Allowance: Annually, the State of Michigan sets the per student foundation allowance. The Jackson Arts and Technology Academy foundation allowance was \$7,255 per student for the 2007-2008 school year.
- Student Enrollment: The Academy's student enrollment for the fall count of 2007-2008 was 139 students. For the fiscal year 2007-2008 a membership blend of 75% of current year fall student count (September 2007) and 25% of the previous year winter student count (February 2007) is multiplied by the Academy's foundation allowance.

Subsequent to June 30, 2008, preliminary student enrollments for 2008 – 2009 indicate that the 2008 fall student enrollment will show a moderate decrease from the 2007 - 2008 levels.

Jackson Arts and Technology Academy

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2008

C. General Fund Budgetary Highlights

General Fund Operations

The Academy's expenditures and other financing sources exceeded revenues and other financing sources from General Fund operations by \$150,821 for the fiscal year ended June 30, 2008. The Board and its management have continued to make investments in the future of the children in the Jackson community by offering Spanish, Music and A+ (Plus) Computer lab instructional sessions.

Final Budget vs. Actual

Fiscal Year	Final Budget	Final Actual
Revenues		
2006-2007	\$ 2,400,065	\$ 2,074,998
2007-2008	\$ 1,939,209	\$ 1,750,416
2008-2009 (projected)	\$ 1,575,903	
Expenditures		
2006-2007	\$ 2,292,023	\$ 1,877,815
2007-2008	\$ 2,125,423	\$ 1,901,237
2008-2009 (projected)	\$ 1,573,329	\$ -

Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Jackson Arts and Technology Academy amends its budget periodically as needed during the school year. For the fiscal year 2007 - 2008, the budget was amended twice December 2007 and June 2008. The June 2008 budget amendment was the final budget for the fiscal year. The Jackson Arts and Technology Academy Board does not budget for expenditures covered by grants or for the grant revenue until an award allocation is received. The General Fund does not budget for debt financed capital outlays, if applicable, in the original budget.

Change from Original to Final General Fund Budget**Revenues:**

Total Revenues - Original Budget	\$ 2,128,228
Total Revenues - Final Budget	<u>1,939,209</u>
Decrease in Budgeted Revenues	<u>\$ 189,019</u>

The Academy's final general fund revenues were less than the final budget by \$188,793 a variance of 9.74%. This variance was primarily a result of unspent federal grant allocations awarded to the Academy. Those allocations are available through September 30 and it is anticipated that these unspent allocations at June 30 will be used before the end of the grant period.

The following are the significant changes in revenues from the original budget:

- Original budget had estimated an enrollment of 225 students and fall 2007 actual enrollment was 139.
- Adjustment to actual grant allocations as estimates were used in the original budget.
- Added carry-over budget allocations for Title I, Title II-D, Title V Funds and Arts in Education.

Expenditures:

The Academy's budget for expenditures changed as follows during the year:

Total Expenditures - Original Budget	\$ 2,123,633
Total Expenditures - Final Budget	<u>2,125,423</u>
Increase in Budgeted Expenditures	<u>\$ 1,790</u>

The Academy's actual expenditures were less than final budget by \$224,185 a variance of 10.5%. This variance was primarily a result a under budgeting of expense related to not spending budgeted amounts in the grants as noted in the above analysis of revenues.

The following are the significant changes in expenditures from the original budget:

- Decreased instructional expenses which included salaries, fringes, and teaching supplies/materials due to reductions in student enrollment.
- Adjustment was made to special education expenses to reflect actual percentage that will be reimbursed by the Intermediate School District.
- Adjustment in grant expenditures as final grant allocations were awarded.
- Created grant carry-over allocation expenditures since amounts are now known.
- Decreased authorizer and management fees resulting from a decrease in state revenues.
- Decreased instructional and non-instructional support staff wages and fringes to reflect reductions in student enrollment.
- Decreased operational and maintenance expenditures to reflect balances at year-end.

CAPITAL ASSETS AND DEBT ADMINISTRATION**A. Capital Assets**

The Academy's net investment in capital assets increased by \$5,073 during the fiscal year. This can be summarized as follows:

	Beginning Balance 6/30/07	Additions	Disposals	Ending Balance 6/30/08
Depreciable capital assts	\$ 461,599	\$ 70,229	\$ -	\$ 531,828
Less: accumulated depreciation, as restated	(199,218)	(65,156)	-	(264,374)
Net investment in capital assets	<u>\$ 262,381</u>	<u>\$ 5,073</u>	<u>\$ -</u>	<u>\$ 267,454</u>

B. Depreciation Expense

GASB 34 requires Public School Academies to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets in the entity wide financial statements. Depreciation is not recognized in the fund financial statements and has been noted as a reconciling item in the Academy's financial statements.

For beginning June 30, 2007 accumulated depreciation reflects a decrease of depreciation by \$23,176 as restated. For fiscal year ended June 30, 2008, the net increase in accumulated depreciation was \$65,156.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset, less an estimated salvage value.

C. Debt, Principal Payments

A summary of long-term debt service activities is as follows.

	Balance 06/30/2007	New Financings	Principal Payments	Balance 06/30/2008
Capital lease obligations	\$ 11,871	\$ 55,260	\$ 10,756	\$ 56,375
Notes payable	105,000	-	50,000	55,000
Total	<u>\$ 116,871</u>	<u>\$ 55,260</u>	<u>\$ 60,756</u>	<u>\$ 111,375</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Preliminary Budget for the 2008-09 Fiscal Year was adopted by the Board of Education in June 2008. Few definite factors were known as the budget was being drafted, and others were unknown and needed to be projected with management's best estimates based on feedback from the community. Some key factors and estimates used in the 2008-09 budget preparation process include:

- The State Aid foundation had been estimated to be \$7,326 per pupil;
- Enrollment projections of 150 students in grades K-6;
- Teaching staff, at a maximum, would provide one teacher for every 25 students;
- Benefit costs would be based on group coverage rates through the Michigan Chamber of Commerce.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to School Districts and Public School Academies. The State periodically holds revenue-estimating conferences to estimate what the State's available resources will be throughout the remainder of its fiscal year. In spite of the current economic uncertainties we remain cautiously confident that the State will find the resources to sufficiently fund current appropriations.

CONTACTING THE ACADEMY'S MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Administration Office, Jackson Arts and Technology Academy, 500 Griswold St., Jackson, Michigan.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

JACKSON ARTS & TECHNOLOGY ACADEMY
Statement of Net Assets
June 30, 2008

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 49,753
Receivables, net	274,246
Prepaid items and other assets	10,416
Capital assets being depreciated, net	<u>267,454</u>
 Total assets	 <u>601,869</u>
Liabilities	
Accounts payable and accrued expenses	171,910
Salaries and benefits payable	56,441
Unearned revenue	46,558
Long-term liabilities:	
Due within one year	70,442
Due in more than one year	<u>40,933</u>
 Total liabilities	 <u>386,284</u>
Net assets	
Invested in capital assets, net of related debt	156,079
Unrestricted	<u>59,506</u>
 Total net assets	 <u><u>\$ 215,585</u></u>

The accompanying notes are an integral part of these financial statements.

JACKSON ARTS & TECHNOLOGY ACADEMY
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 597,036	\$ -	\$ 566,256	\$ (30,780)
Supporting services	1,166,952	23,829	-	(1,143,123)
Food service	48,771	3,577	42,430	(2,764)
Interest on long-term debt	3,500	-	-	(3,500)
Unallocated depreciation	65,156	-	-	(65,156)
Total	<u>\$ 1,881,415</u>	<u>\$ 27,406</u>	<u>\$ 608,686</u>	<u>(1,245,323)</u>
General revenues:				
Unrestricted state aid				<u>1,105,071</u>
Change in net assets				(140,252)
Net assets, beginning of year, as restated				<u>355,837</u>
Net assets, end of year				<u>\$ 215,585</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

JACKSON ARTS & TECHNOLOGY ACADEMY

Balance Sheet Governmental Funds June 30, 2008

	<u>General</u>	<u>Nonmajor Fund Food Service</u>	<u>Total</u>
<u>ASSETS</u>			
Assets			
Cash and cash equivalents	\$ 46,796	\$ 2,957	\$ 49,753
Accounts receivable	18,691	-	18,691
Due from other governments	255,555	-	255,555
Due from other funds	2,957	-	2,957
Prepaid expenditures	10,416	-	10,416
	<u> </u>	<u> </u>	<u> </u>
<u>TOTAL ASSETS</u>	<u>\$ 334,415</u>	<u>\$ 2,957</u>	<u>\$ 337,372</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable and accrued expenses	\$ 171,910	\$ -	\$ 171,910
Salaries and benefits payable	56,441	-	56,441
Due to other funds	-	2,957	2,957
Deferred revenue	46,558	-	46,558
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	274,909	2,957	277,866
	<u> </u>	<u> </u>	<u> </u>
Fund balances			
Reserved for prepaid expenditures	10,416	-	10,416
Unreserved	49,090	-	49,090
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	59,506	-	59,506
	<u> </u>	<u> </u>	<u> </u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 334,415</u>	<u>\$ 2,957</u>	<u>\$ 337,372</u>

The accompanying notes are an integral part of these financial statements.

JACKSON ARTS & TECHNOLOGY ACADEMY
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2008

Fund balances - total governmental funds	\$	59,506
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets		531,828
Deduct: accumulated depreciation		(264,374)

Liabilities, such as loans payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: loan and notes payable		(111,375)
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Net assets of governmental activities	\$	215,585
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The accompanying notes are an integral part of these financial statements.

JACKSON ARTS & TECHNOLOGY ACADEMY
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	<u>General</u>	<u>Nonmajor Fund Food Service</u>	<u>Total</u>
Revenue			
Local sources:			
Food service	\$ -	\$ 690	\$ 690
Other local revenue	23,829	-	23,829
State sources:			
State school aid	1,260,619	2,887	1,263,506
Federal sources	410,708	42,430	453,138
	<u>1,695,156</u>	<u>46,007</u>	<u>1,741,163</u>
Total revenue			
Expenditures			
Education:			
Instruction	667,265	-	667,265
Supporting services	1,166,952	-	1,166,952
Food service	-	48,771	48,771
Debt service:			
Principal repayment	60,756	-	60,756
Interest and fiscal charges	3,500	-	3,500
	<u>1,898,473</u>	<u>48,771</u>	<u>1,947,244</u>
Total expenditures			
Revenue under expenditures	<u>(203,317)</u>	<u>(2,764)</u>	<u>(206,081)</u>
Other financing sources (uses)			
Capital lease proceeds	55,260	-	55,260
Transfers in	-	2,764	2,764
Transfers (out)	(2,764)	-	(2,764)
	<u>52,496</u>	<u>2,764</u>	<u>55,260</u>
Total other financing sources (uses)			
Net change in fund balances	(150,821)	-	(150,821)
Fund balances, beginning of year	<u>210,327</u>	<u>-</u>	<u>210,327</u>
Fund balances, end of year	<u><u>\$ 59,506</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 59,506</u></u>

The accompanying notes are an integral part of these financial statements.

JACKSON ARTS & TECHNOLOGY ACADEMY
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$ (150,821)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	70,229
Deduct: depreciation expense	(65,156)

Repayment of long-term principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	60,756
Subtract: proceeds from capital lease	(55,260)

Change in net assets of governmental activities	<hr/> <u>\$ (140,252)</u>
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The accompanying notes are an integral part of these financial statements.

JACKSON ARTS & TECHNOLOGY ACADEMY
General Fund
Statement of Revenue, Expenditures and
Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2008

	Budget Amounts		Actual	Actual Over
	Original	Final		(Under) Final Budget
Revenue				
Local sources	\$ 36,807	\$ 33,788	\$ 23,829	\$ (9,959)
State sources	1,670,813	1,307,179	1,260,619	(46,560)
Federal sources	420,608	598,242	410,708	(187,534)
Total revenue	2,128,228	1,939,209	1,695,156	(244,053)
Expenditures				
Instruction:				
Basic Programs	459,905	341,880	329,368	(12,512)
Added needs	281,654	441,093	337,897	(103,196)
Total Instruction	741,559	782,973	667,265	(115,708)
Supporting Services:				
Instructional Staff Services	278,072	361,606	227,663	(133,943)
Pupil	26,875	28,575	29,152	577
Central	3,150	653	653	-
General administration	312,465	254,739	236,892	(17,847)
School administration	154,960	124,530	119,998	(4,532)
Business services	23,350	28,400	28,331	(69)
Operation and maintenance	517,052	483,487	524,263	40,776
Total Supporting Services	1,315,924	1,281,990	1,166,952	(115,038)
Debt Service:				
Principal	50,000	50,000	60,756	10,756
Interest	3,600	3,500	3,500	-
Total Debt Service	53,600	53,500	64,256	10,756
Total expenditures	2,111,083	2,118,463	1,898,473	(219,990)
Revenues over (under) expenditures	17,145	(179,255)	(203,317)	(24,062)
Other financing sources (uses)				
Capital lease proceeds	-	-	55,260	55,260
Transfers (out)	(12,550)	(6,959)	(2,764)	4,195
	(12,550)	(6,959)	52,496	59,455
Net change in fund balance	4,595	(186,214)	(150,821)	35,393
Fund balance, beginning of year	122,272	210,327	210,327	-
Fund balance, end of year	\$ 126,867	\$ 24,113	\$ 59,506	\$ 35,393

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

JACKSON ARTS AND TECHNOLOGY ACADEMY

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Jackson Arts and Technology Academy (the “Academy”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the Academy.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by intergovernmental revenues and grants, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Academy had no *business-type activities* during the year ended 2008.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted state aid and other items not properly included among program revenues are reported instead as *general revenues*.

The General fund, as a major fund, is reported in a separate column in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

JACKSON ARTS AND TECHNOLOGY ACADEMY

Notes to the Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Intergovernmental revenue and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Academy reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the Academy reports the following fund type:

The *food service special revenue fund* accounts for the activity of the food service program.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Academy-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

JACKSON ARTS AND TECHNOLOGY ACADEMY

Notes to the Financial Statements

D. Assets, liabilities and equity

1. *Cash and cash equivalents*

The Academy's cash and cash equivalents are considered to be demand deposits held in bank accounts.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

3. *Prepaid items*

Payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. *Capital assets*

Capital assets, which include furniture and equipment, are reported in the governmental activities column in the Academy-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	5
Furniture	20

JACKSON ARTS AND TECHNOLOGY ACADEMY

Notes to the Financial Statements

5. *Long-term obligations*

In the Academy-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets.

6. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

Budget variances are disclosed in the General Fund Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual Statement.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets follows:

Statement of Net Assets:

Cash and cash equivalents	\$ <u>49,753</u>
Bank deposits (checking accounts)	\$ 49,253
Cash on hand	<u>500</u>
	<u>\$ 49,753</u>

JACKSON ARTS AND TECHNOLOGY ACADEMY

Notes to the Financial Statements

Statutory Authority

Michigan law authorizes the Academy to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The Academy's investment policy allows for all of these types of investments.

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The Academy's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Academy's investment policy does not have specific limits in excess of state law on investment credit risk.

JACKSON ARTS AND TECHNOLOGY ACADEMY

Notes to the Financial Statements

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned. State law does not require and the Academy does not have a policy for deposit custodial credit risk. As of year end, the Academy's bank balance of \$50,813 was fully insured.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Academy does not have a policy for investment custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The Academy's investment policy does not have specific limits in excess of state law on concentration of credit risk.

The Academy had no investment activity for the year ended June 30, 2008.

B. Receivables

Receivables as of year end for the Academy's individual major fund and nonmajor fund in the aggregate, are as follows:

	<u>General Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>	<u>Amounts not Expected to be Collected Within One Year</u>
Receivables:				
Accounts	\$ 18,691	\$ -	\$ 18,691	\$ -
Intergovernmental	<u>255,555</u>	<u>-</u>	<u>255,555</u>	<u>-</u>
	<u>\$ 274,246</u>	<u>\$ -</u>	<u>\$ 274,246</u>	<u>\$ -</u>

JACKSON ARTS AND TECHNOLOGY ACADEMY

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2008, was as follows:

Governmental activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Site improvements	\$ 10,000	\$ -	\$ -	\$ 10,000
Equipment and furniture	451,599	70,229	-	521,828
Total capital assets being depreciated	<u>461,599</u>	<u>70,229</u>	<u>-</u>	<u>531,828</u>
Less accumulated depreciation for:				
Site improvements	1,085	-	-	1,085
Equipment and furniture	198,133	65,156	-	263,289
Total accumulated depreciation	<u>199,218</u>	<u>65,156</u>	<u>-</u>	<u>264,374</u>
Governmental activities capital assets, net	<u>\$ 262,381</u>	<u>\$ 5,073</u>	<u>\$ -</u>	<u>\$ 267,454</u>

Depreciation expense of \$65,156 was charged to the function “unallocated depreciation”, and not allocated to the other functions.

D. Payables

Accounts payable and accrued liabilities as of year end for the Academy’s individual major fund and nonmajor fund, are as follows:

Fund Financial Statements:	<u>General</u>	<u>Nonmajor Fund</u>	<u>Total</u>
Accounts payable	\$ 171,910	\$ -	\$ 171,910
Salaries and retirement payable	<u>56,441</u>	<u>-</u>	<u>56,441</u>
	<u>\$ 228,351</u>	<u>\$ -</u>	<u>\$ 228,351</u>

JACKSON ARTS AND TECHNOLOGY ACADEMY

Notes to the Financial Statements

E. Interfund receivables, payables and transfers

At June 30, 2008, interfund receivables and payables consisted of the following:

	<u>Due to</u>	<u>Due from</u>
General Fund	\$ 2,957	\$ -
Nonmajor Food Service	<u>-</u>	<u>2,957</u>
	<u>\$ 2,957</u>	<u>\$ 2,957</u>

The Academy reports interfund balances between two funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

At June 30, 2008, interfund transfers consisted of the following:

	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$ 2,764	\$ -
Nonmajor Food Service Fund	<u>-</u>	<u>2,764</u>
	<u>\$ 2,764</u>	<u>\$ 2,764</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2008, the Academy transferred funds to subsidize the food service special revenue program.

F. Long-term debt

The following is a summary of the changes of long-term debt obligations for the Academy for the year ended June 30, 2008:

	<u>Beginning Balance July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance June 30, 2008</u>	<u>Due Within One Year</u>
Notes	\$ 105,000	\$ -	\$ 50,000	\$ 55,000	\$ 55,000
Loans	<u>11,871</u>	<u>55,260</u>	<u>10,756</u>	<u>56,375</u>	<u>15,442</u>
Total	<u>\$ 116,871</u>	<u>\$ 55,260</u>	<u>\$ 60,756</u>	<u>\$ 111,375</u>	<u>\$ 70,442</u>

JACKSON ARTS AND TECHNOLOGY ACADEMY

Notes to the Financial Statements

Total interest expenditures related to long-term debt for the Academy for the year ended June 30, 2008, were \$3,500.

Notes Payable

- A note was issued to Mosaica Education, Inc. in the amount of \$55,000 with an interest rate of 9% and is due in one payment plus interest on July 31, 2008.

Loans Payable

- Equipment loan payable – monthly payments of \$495 for 60 months. The loan expires in June 2009 and bears no interest.
- Equipment loan payable – quarterly payments of \$4,820 for 5 years. The loan expires in November 2012 with an interest rate of 7.9%.

Future minimum debt payments are:

<u>Year Ended</u> <u>June 30,</u>	<u>Note Payable</u>		<u>Installment Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 55,000	\$ 15,263	\$ 15,442	\$ 3,733
2010	-	-	10,284	2,955
2011	-	-	11,083	2,111
2012	-	-	12,041	1,198
2013	-	-	7,525	256
Total	\$ 55,000	\$ 15,263	\$ 56,375	\$ 10,253

Changes in the State aid notes payable for the year ended June 30, 2008 were as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>
State aid note	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$ -</u>

JACKSON ARTS AND TECHNOLOGY ACADEMY

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for these risks and believe that no additional liability exists.

B. Federal and state grants

The Academy has received federal and state grants for specific purposes which are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

C. Related party transactions

The Academy entered into a management agreement with Mosaica Education, Inc. to provide educational and administrative services. The agreement will expire on the last school day of the 2010-2011 school year, and will renew for an additional term equal to the term of any valid and effective charter agreement entered into by the Academy.

For the term of the agreement, Mosaica Education, Inc. will receive an annual fee of 12.5% of the amount the Academy receives from local, State of Michigan, and Federal Government sources. In addition, Mosaica Education, Inc. will be reimbursed for all costs incurred and paid on behalf of the Academy. Such costs include, but are not limited to, salaries of Mosaica Education, Inc. employees, costs related to curriculum, instructional materials, textbooks, library books, computers, software, supplies, food service, transportation, special education, psychological services and medical services.

The Academy has a liability to Mosaica Education, Inc. in the amount of \$55,000 for the year ended June 30, 2008. This consists of the long-term debt notes payable to Mosaica Education, Inc. Refer to Note III-F for additional information.

D. Operating lease agreement

The Academy has an operating lease agreement for use of a building through August 31, 2011. The lease provides for annual payments of \$276,792, which may be escalated over the lease term by a formula taking into consideration the lessor investment in the property as well as increases in the Consumers Price Index (CPI).

JACKSON ARTS AND TECHNOLOGY ACADEMY

Notes to the Financial Statements

Future minimal rental obligations assuming 2% increase in the CPI are as follows:

Year Ended June 30,	<u>Amount</u>
2009	\$ 299,951
2010	305,950
2011	312,069
2012	<u>51,720</u>
Total	<u>\$ 969,690</u>

Rental expense was \$294,070 for the year ended June 30, 2008.

E. State Aid Anticipation Note

The Academy entered into an agreement for a State Aid Anticipation Note for the 2008-2009 school year in the amount of \$300,000. This agreement was signed in July 2008.

F. Restatement

The beginning net assets of the government wide statements were decreased by \$23,176 to properly record accumulated depreciation as of June 30, 2007.

* * * * *

SUPPLEMENTAL INFORMATION

JACKSON ARTS & TECHNOLOGY ACADEMY

General Fund

Detail Schedule of Revenue and Other Sources, Expenditures and Other Uses, and Changes in Fund Balance

Budget and Actual

For the Year Ended June 30, 2008

	Final Budget	Actual	Variance - Over (Under)
Revenue			
Local sources:			
Jackson ISD	\$ 9,123	\$ -	\$ (9,123)
Other	24,665	23,829	(836)
State sources:			
State school aid - Discretionary allocation	1,105,071	1,105,071	-
State school aid - At risk	193,464	146,903	(46,561)
Other	8,645	8,645	-
Federal sources:			
Title I	169,608	133,576	(36,032)
Title II A & D	36,131	19,231	(16,900)
Title V	2,322	1,086	(1,236)
Other	28,575	29,151	576
Arts Grant	361,606	227,664	(133,942)
Total revenue	1,939,209	1,695,156	(244,054)
Expenditures			
Instruction:			
Basic Programs:			
Elementary:			
Purchased services:			
Salaries	261,395	256,986	(4,409)
Benefits	63,401	59,526	(3,875)
Other	2,600	2,577	(23)
Supplies, materials and other	14,484	10,279	(4,205)
Total Elementary	341,880	329,368	(12,512)
Added needs:			
Special Education			
Purchased services:			
Salaries	19,240	18,060	(1,180)
Benefits	4,474	3,910	(564)
Supplies, materials and other	15,855	15,130	(725)
Total Special Education	39,569	37,100	(2,469)

JACKSON ARTS & TECHNOLOGY ACADEMY
General Fund

**Detail Schedule of Revenue and Other Sources,
Expenditures and Other Uses, and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended June 30, 2008**

	Final Budget	Actual	Variance - Over (Under)
Expenditures (continued)			
Instruction (continued):			
Added Needs:			
At Risk:			
Purchased services:			
Salaries	\$ 131,436	\$ 82,608	\$ (48,828)
Benefits	23,050	22,187	(863)
Supplies, materials and other	38,978	42,110	3,132
Total At Risk	193,464	146,905	(46,559)
Added Needs:			
Title I			
Purchased services:			
Salaries	114,337	88,835	(25,502)
Benefits	21,913	14,908	(7,005)
Other	25,047	22,969	(2,078)
Supplies, materials and other	11,037	8,064	(2,973)
Total Title I	172,335	134,776	(37,558)
Added needs:			
Title II A:			
Purchased services:			
Salaries	14,668	14,667	(1)
Other	18,594	2,337	(16,257)
Total Title II A	33,262	17,004	(16,258)
Added needs:			
Title II D:			
Purchased services:			
Supplies, materials and other	1,369	1,026	(343)
Total Title II D	1,369	1,026	(343)
Added needs:			
Title V A:			
Purchased services:			
Salaries	1,017	1,032	15
Benefits	78	54	(24)
Total Title V A	1,095	1,086	(9)
Total instruction	782,973	667,265	(115,708)

JACKSON ARTS & TECHNOLOGY ACADEMY
General Fund
Detail Schedule of Revenue and Other Sources,
Expenditures and Other Uses, and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended June 30, 2008

	Final Budget	Actual	Variance - Over (Under)
Expenditures (continued)			
Pupil Services:			
Purchased services:			
Salaries	\$ 21,400	\$ 21,193	\$ (207)
Benefits	5,875	5,311	(564)
Supplies, materials and other	1,300	2,648	1,348
Total Pupil	<u>28,575</u>	<u>29,152</u>	<u>577</u>
Arts Grant:			
Purchased services:			
Supplies, materials and other	52,010	27,852	(24,158)
Contracted services	18,000	-	(18,000)
Payments to other academies	231,065	156,925	(74,140)
Capital Outlay	60,532	42,886	(17,646)
Total Arts Grant	<u>361,606</u>	<u>227,663</u>	<u>(133,944)</u>
Central:			
Purchased services:			
Supplies, materials and other	653	653	-
Total Central	<u>653</u>	<u>653</u>	<u>-</u>
General Administration:			
Purchased services:			
Management fees	240,114	224,961	(15,153)
Other	14,625	11,931	(2,694)
Total General Administration	<u>254,739</u>	<u>236,892</u>	<u>(17,847)</u>
School Administration:			
Purchased services:			
Salaries	71,429	69,503	(1,926)
Benefits	14,546	13,259	(1,287)
Other	30,207	29,060	(1,147)
Supplies, materials and other	8,348	8,176	(172)
Total School Administration	<u>124,530</u>	<u>119,998</u>	<u>(4,532)</u>
Business Services:			
Purchased services:			
Other	28,400	28,331	(69)
Total Business Services	<u>28,400</u>	<u>28,331</u>	<u>(69)</u>

JACKSON ARTS & TECHNOLOGY ACADEMY
General Fund
Detail Schedule of Revenue and Other Sources,
Expenditures and Other Uses, and Changes in Fund Balance
Budget and Actual (Concluded)
For the Year Ended June 30, 2008

	Final Budget	Actual	Variance - Over (Under)
Expenditures (concluded)			
Operation and Maintenance:			
Purchased services:			
Salaries	\$ 33,500	\$ 32,877	\$ (623)
Benefits	7,646	7,520	(126)
Other	387,421	431,291	43,871
Supplies, materials and other	54,921	52,575	(2,346)
Total Operation and Maintenance	483,487	524,263	40,776
 Total Supporting Services	1,281,990	1,166,952	(115,039)
 Debt service			
Principal	50,000	60,756	10,756
Interest	3,500	3,500	-
Total Debt Service	53,500	64,256	10,756
 Total expenditures	2,118,463	1,898,473	(219,991)
 Other financing sources (uses)			
Proceeds from capital lease	-	55,260	55,260
Transfers (out)	(6,959)	(2,764)	4,195
Total other financing sources (uses), net	(6,959)	52,496	59,455
 Net change in fund balances	(186,214)	(150,821)	35,393
 Fund balance, beginning of year	210,327	210,327	-
 Fund balance, end of year	\$ 24,113	\$ 59,506	\$ 35,393



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

October 22, 2008

Board of Education
Jackson Arts and Technology Academy
Jackson, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **JACKSON ARTS AND TECHNOLOGY ACADEMY** as of and for the year ended June 30, 2008, and have issued our report thereon dated October 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Jackson Arts and Technology Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of Jackson Arts and Technology Academy in a separate letter dated October 22, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jackson Arts and Technology Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE UNDER SAS NO. 114

October 22, 2008

To the Board of Education
Jackson Arts & Technology Academy

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Jackson Arts & Technology Academy* ("the JATA") for the year ended June 30, 2008, and have issued our report thereon dated October 22, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated July 10, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the *JATA*. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the *JATA*'s compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in various discussions throughout the audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the JATA are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We noted no such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 22, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of the *Jackson Arts & Technology Academy* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", written in a cursive style.

Jackson Arts & Technology Academy

Comments and Recommendations

For the Year Ended June 30, 2008

In planning and performing our audit of the financial statements of the Jackson Arts & Technology Academy (the “JATA”) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the JATA’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the JATA’s internal control. Accordingly, we do not express an opinion on the effectiveness of the JATA’s internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Other Matters

Cash receipts – food service

The food service department cashier counts the cash received and compares to the cash register control totals. The money is given over to the Administrative Assistant who then prepares the deposit. The money is deposited, and the deposit information is then sent over to the Academy accountant. Presently, there are no initials of the cashier nor the Administrative Assistant on any of these forms to indicate that these steps have been performed. In the future, we recommend that both the cashier and Administrative Assistant initial and date a cash report form as indication that the cash deposited agrees with the cash register control totals in order to provide a complete audit trail, and to document that at least two individuals are involved in this process.

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